UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.:
LIMITED

E/ECA/TRADE/91/5
8 March 1991

Original: ENGLISH

ECONOMIC COMMISSION FOR AFRICA

Eleventh meeting of the Conference
of African Ministers of Trade

Addis Ababa, Ethiopia
15 to 19 April 1991

AFRICA'S PROSPECTS FOR TRADE IN SELECTED PRIMARY COMMODITIES AND CAPABILITIES FOR INCREASING EXPORT EARNINGS THROUGH PROCESSING OF SELECTED PRIMARY COMMODITIES

II. INTRODUCTION

1. From time to time, various bodies have made attempts to find solutions to problems connected with using primary commodities to ensure Africa's economic development process. Similarly, numerous studies relating to processing of individual commodities have been conducted by such bodies as the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture organization of the United Nations (FAO), the United Nations Economic Commission for Africa (ECA) to mention but a few. Each such study has attempted to target specific or individual issues of export interest to African countries. For example in 1979, during the fifth session of the United Nations Conference on Trade and Development (UNCTAD) the international community adopted resolution 124(V) calling for the implementation of the Integrated Programme for Commodities (IPC) which among other things, stressed elements of processing, marketing and distribution of primary commodities with greater participation by developing countries in processing, transportation and distribution of their commodities at the local level, within a wider framework of international co-operation.

2. This study is therefore complementary to ones prepared previously by the Trade and Development Finance Division. 1/ Nonetheless it draws rather heavily on document E/ECA/TRADE/89/10 and E/ECA/TRADE/90/9 since both address a common concern.2/

1/see Doc. E/ECA/TRADE/90/20: Review of trends, policies and prospects for trade in primary commodities in enhancing Africa's export performance, 13 December, 1990.

2/ See Doc E/ECA/TRADE/89/10: Mechanisms for diversifying Commodity trade including policy options towards processing and industrialization in Africa. Doc E/ECA/TRADE/90/9: Prospects for

3. To a large extent also, many of the issues that form benchmark in this area have been further redefined, in the Strategies for Revitalization, Recovery and Growth of Africa's Trade in the 1990s and Beyond which the Special Session of the Conference of African Ministers of Trade adopted in December 1990.3/ It reiterates the need to improve Africa's export earnings through diversification, encompassing encouraging the processing of agricultural and mineral commodities in order to create a basis for expanding horizontal and vertical export diversification to significantly increase export earnings.

4. In point of fact, the strategies see in the above approach a viable means for strengthening Africa's significant role in international co-operation and intensification of cooperation between producers and consumers. Some of these measures also form part of or are already incorporated in the United Nations Programme of Action for African Recovery and Development, 1986-1990 (UN-PAAERD) whose emphasis is on nurturing agro-based industries. This is viewed as part of the diversification strategy package, in an attempt to increase the capacity of African countries to process, distribute, market and transport their primary commodity exports. Such actions if implemented are likely to help with redressing the crisis aggravated by the collapse in primary commodity prices.

5. Therefore this study examines Africa's capabilities to process some of its primary commodities rather than exporting them in their raw form. Sections of the paper following this brief introduction analyze current commodity problems and prospects in the 1990s before reviewing Africa's prospects to process commodities for

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trade promotion in semi-processed products between Africa and other developing countries.

3/ See Strategies for Revitalization, Recovery and Growth of Africa's Trade in Africa in the 1990s and Beyond, E/ECA/TRADE/89/25/Rev.5, P. 23.

export. It then proceeds with a review of possible policy options and mechanisms for enhancing trade in processed products. The concluding summary focuses on what needs to be done to resolve some of the problems identified.

II. REVIEW OF PROBLEMS AND PROSPECTS FOR COMMODITY TRADE IN AFRICA IN THE 1990S AND BEYOND

(a) Importance of commodity trade in Africa's development process

6. It has been indicated in the other paper (E/ECA/TRADE/90/20) complementing to this one just how crucial is commodity trade to Africa's current and future economic prospects. However it is necessary to reiterate that in no other region of the world is the pace of economic growth and development more dependent upon the performance of its commodity sector than in Africa. A majority of Africa's population derives its livelihood from producing and trading in commodities. It is also the most important source of foreign exchange earnings and generates a large part of domestic savings and fiscal revenue that together constitute the economic foundation of economic development in Africa. Hence the regions's borrowing capacity, and ability to service external debt hinge around commodity trade. Statistically, as an export component, the commodity sector accounts for up to 60% of the Gross Domestic Product. But then in the last decade, Africa's commodity trade has not lived up to the expectations of African producers. Mainly because commodity prices plunged and continued to decline to levels lower than they were in the 1970s.

7. The region's industries rely quite significantly on the commodity sector for much of their raw material inputs, even though the former is still relatively less developed. A large part of the

commodities produced in Africa tend to be exported or consumed as unprocessed products. Its linkages with other sector of the economy are relatively weak, partly due to low income levels in the economy which in turn fails to support Africa's trade. It is these elements that combine to limit the sector's ability to be a stimulus in developing domestic industries. Studies to which reference is made also underline this non-exploitative potential of commodities to contribute to Africa's economic development, in marked contrast to other developing countries. Perhaps if the African economies had been able to establish viable processing structures or had the levels of processing and manufacturing not been that low, some of the adverse trends experienced in the recent past would have not caused such devastating damage to most African economies.

(b) Problems of commodity trade in Africa in the 1990s and Beyond

8. The sum total of Africa's trade trends as the unit value of exports declined relative to increased imports prices resulted in deteriorating terms of trade and weakened the region's purchasing power. Putting these trends alongside other developments, a picture emerges that shows that Africa's economic development and growth have lagged behind not only that of other developing regions but also the world as a whole.

9. Africa's share of total world primary exports was 4 per cent in 1987, against 5 per cent in 1980 and 9 per cent in 1970. The fall was particularly sharp for cocoa, cotton and copper in 1987 by between 20 per cent and 40 per cent of their 1970 levels. In the case of palm oil, Africa lost almost its entire world share and only in a handful (fish, tea, tobacco, bauxite and phosphate rock) were African exporters able to retain much of their market share. Contributory factors apart from decline in demand and substitutes

included decline in supply capacity due to such natural causes like drought, desertification and pests in infestation. The other cause was pursuing inappropriate domestic policies. Added to the above were having to face up to tariffs and non-tariff barriers.

10. Africa's great dependence on commodity trade is analyzed in greater detail in doc. E/ECA/TRADE./90/20.4/ For instance in the 1980s, of the 50 African countries, over 20 of them experienced negative growth rates and only in six countries did economic growth rates exceeded 2 per cent. Dependence is not bad in itself but for Africa the difficulty is aggravated by only little of no control in terms of influencing earnings derived from exporting its primary commodities. Over and above, Africa's inability to respond appropriately to the world structural changes that have adversely affected commodity demand, particularly in industrialized developed countries that are the main end-users. Similarly, recession in the manufacturing sector of the latter resulted in considerable reduction in use of commodities of export interest to African suppliers since technological innovation has given rise to increased competition and/or displacement of natural products by synthetic substitutes.

11. For instance, such mineral commodities like copper, iron-ore and bauxite now compete with plastics, ceramics, composites and optical fibres. Similarly for agricultural commodities like sugar (alternative sweeteners made from high fructose corn syrup and other substances), and also for sisal, hides and skins and cotton (man-made synthetic fibres). Only in the case of cotton unlike sisal has there been some increase of success in regaining part of its lost markets share through research improvements in products quality and promotion efforts. The case of cotton is illustrative

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4/ See doc. E/ECA/TRADE/90/20, p. 3

of what is possible with other commodities, including tropical beverage that are facing competition from such alternatives as carbohydrated drinks.

12. A variety of factors varying in degree of importance and from country to country, and by product, are responsible for the poor performance of the commodity sector in Africa. A change in one of the factors will not necessarily, by itself, lead to a significant improvement in the situation. The response has to be comprehensive, taking into account particular conditions of individual countries and the commodities themselves.

13. Commodity prices fluctuation is indeed a major problem that even the existence of certain international commodity agreements (ICAs) have not been able to resolve. The average percentage variation during 1980 and 1988, on a monthly price trends were around 12 to 13 per cent for coffee, cocoa and cotton, 20 per cent for copper, 25 per cent for aluminium and about 45 per cent for sugar. The issue of containing price fluctuations has to be perceived beyond the narrow individual interest. It has also to be viewed not only in short and medium terms but to be given a long-term perspective by rekindling a sense of mutual determination and dedication if it is at all to be sustained.

14. There have been difficulties in the operation of a number of ICAs in recent years and their future relationship with the Common Fund must await the test of time. Some ICAs worked only for limited periods. These are the once that were sustained because there was genuine cooperation between producers and consumers. On the other hand, where cooperation waned and the commitment that was necessary to sustain the mechanisms had not been forthcoming, these systems were found to be wanting and incapable of attaining their objectives.

(c) Prospects for commodity trade in the 1990 and Beyond

15. What prospects exist for Africa to trade in commodities in the 1990s and beyond is the next issue of this analysis but can not be much distant from what is stated immediately above. Projections based on several studies so far undertaken show a declining, trend in terms of export earnings as Africa's world market share gets relatively less and less in the 1990s and beyond. Price forecasts also up to the year 2000 for Africa's major primary commodity exports (coffee, cocoa, tea, cotton, copper, tin, nickel, bauxite, iron ore etc.) indicate no increase possibilities. This sort of background removes revival prospects of Africa's economic growth so long as it continues to be predicated on the recovery of primary commodity prices. Moreover, Africa is going to be affected more than any other region by the projected slow growth in demand for primary commodities.

17. There are no signs from what is stated so far to contradict the evidence that exports of primary agriculture and mineral commodities are not going to continue to be vulnerable to large variations in terms of demand, supply and prices. As changes in these terms affect real incomes of individuals, the profitability of production and government budgets will certainly influence expenditures in turn domestic activity. In those economies where foreign trade is small in relation to GNP the effect of such changes in terms of trade is likely to be outweighed by other factors. However, in most African economies where the majority are dependent on primary commodity exports large swings in terms of trade affect the pace of output and growth.

18. The region's failure to achieve minimum policy objectives and targets especially the failure to increase manufacturing value-added set out in the Lagos Plan of Action and the Industrial

Development Decade for Africa during the 1980s calls for further analysis. It should review processing prospects both to meet exports and domestic demand including promoting intra-regional trade. It is also imperative to emphasise that processing is a major option. As a second best solution African countries should be encouraged to form producer/consumer groups or forums for exchanging market information. They should also consider, carefully and in coordination with producers in other regions promoting the establishment of supply management schemes for such commodities as coffee and cocoa.

III. OVERVIEW OF AFRICA'S PROSPECTS TO PROCESS AND TRADE IN MANUFACTURES

19. There can be no dispute of the fact that a number of advantages can be derived by expanding processing of domestically available products both in terms of trade creation and diversion. On such advantage lies in the possibility of reducing price and earning fluctuations that bedevil many primary commodity exporting countries. Processed products do not suffer the export price fluctuations to the same degree as do raw materials. Granted this varies from product to product. Available statistics confirm that real prices of processed products, in particular food products have been rising in the international markets.

20. Prerequisites for diversifying export trade of semi-processed and processed as well as semi-manufactured and manufactured products will depend on radical changes in the processing countries of the African region itself, especially changes to the industrial structure. Development of a proper production base is bound to yield greater opportunities through supply of inputs for other firms. It also promises to establish forward linkages to new industries whether local, subregional or regional in nature. There is therefore a pressing need for Africa to develop a proper

production base with a view to diversifying both country and product composition of their trade.

(a) Africa's capacity and capability to increase export earnings through processing

21. The identification of processing capabilities and opportunities is closely linked to a nation's resource base. Africa is endowed with abundant natural resources and therefore has a potential to increase its export earnings through processing most of its raw materials. However, for a long time now Africa has remained an exporter of its resources in their raw form. The potential to exploit these commodities beyond simple processing has hardly been tapped. What limits the potential of African countries to diversify through processing is the lack of adequate funding and technology. This is partly due to a lack of interest on the part of external investors who weighed the African situation against the comparative opportunities in other developing countries of Asia and Latin America. Others on the other hand put upper most the disadvantage of unstable African regimes and so called unfavourable government policies.

22. Africa's future trade prospects in processed products within the context of the overall trade performance in manufactures (SITC 5 to 8), together with other processed items in SITC 0 to 8 category is a sum total of expected contribution of current and envisaged industrial processing and manufacturing, using its national resources.

23. Recent developments in international trade and how the African economies have been affected sums up some of the difficulties faced by developing African countries and why they must attempt to expand and move away from primary commodity export dependence trade. The predominance of developed market economies in Africa's

trade relations that is a sea-saw of Africa exporting primary products and importing manufactures, is what has generally undermined Africa's potential to exploit new product possibilities and markets. It has above all, greatly contributed to throttling possibilities to divert trade, especially to new markets in processed products. For instance, the general trade situation improved in favour of the developing countries during the last decade because of the stimulus that was provided by trade in manufactures through labour intensive value added products assuming the role of an agent for development, mostly in the countries of South-East Asia. Exporters of manufactures in the above group of developing countries during 1989-1990 maintained and accelerated high rates of GDP, and foreign investment which enabled them sustain growth. They thus accounted for about 13 per cent manufactured exports and 3 per cent of production growth rate.

24. On the contrary, African countries did not only fail to take appropriate measures to take advantage of the situation but also failed to show any signs of improvement in the overall trade performance. It was not so much the commodity dependence that affected Africa's lack of export potential of manufactured products. Rather, the main root cause was in the structural weakness of the African economies themselves. Technological changes and structural transformation that have steadily reshaped the world trade seem to have by-passed Africa, resulting in further marginalization of the region. It is a kind of technological backwardness that perpetuates Africa's dependence on traditional markets and the export of traditional commodities.

25. Africa's production structure shows that industrial goods constitute a relatively small ratio of the export base. Africa's share of world's manufactured exports accounted for only about 0.2 per cent with more than 50 per cent of manufacture value-added (MVA) generated by a handful of countries. Most of them in North

Africa, and except for one or two in West Africa. In 1985 the North African subregion accounted for about 49 per cent, about 52 per cent in 1986 and for about 54 per cent in 1987. Countries of West Africa accounted for about 27 per cent, 22 per cent and 20 per cent respectively during the same period.

26. A closer examination of individual country exports performance reveals that the structures are based on slow growing products. This notwithstanding, African countries have better prospects of increasing their export market share substantially in a number of labour-intensive manufactures like clothing. Similarly, Africa can raise its world's share in a number of resource-based products. For instance in processed cocoa, coffee, non-coniferous lumber, leather and jewellery.

27. The extent of trade expansion in processed products witnessed during the last two decades is not commensurate with the potential that African countries have in this area. Developing Africa has abundant natural resources. However, present economic difficulties resulting from recurring trade deficit, debt burden and falling export earnings, make it difficult for them to tap existing processing potentials with a view to gaining new market outlets as alternative sources of foreign exchange earnings. It will also not be possible as long as Africa's manufacturing output remains very small both in absolute terms and in relation to its GDP. Available statistical data reveal further, a trade pattern that is less dynamic in terms of products traded by Africa with the world and other developing countries, especially in respect of products in the SITC 1,3,8 and 7 category. Only in a relatively few products like the case of in SITC 5 (chemicals), SITC 2 (including 26 textiles articles 51 apparel and clothing and semi-processed product groups was any dynamism observed in which African countries achieved some significant growth. All the same, prospects for

export trade in manufactures is relatively bright for countries in the North African subregional because they have better production capacity.

28. Similarly, a few encouraging signs have been observed regarding individual production patterns in some African countries. These point to great potential for the expansion of trade in processed products for export to other developing regions of Latin America and Asia. For instance, countries like Egypt, Tunisia, Morocco, Nigeria and Cote d'Ivoire have become significant exporters of processed products. In such countries as the Gambia shows that processing of groundnuts and fish accounts for 75 per cent of manufacturing value-added. In Eastern and Southern Africa and in the Central African subregions, the actual export performance of processed products is relatively low. Except in Zambia and Zimbabwe where the production of consumer goods is relatively more promising. The share in total manufacturing value-added in 1985 in these countries accounted for 63 per cent and 53 per cent respectively. Food processing and textile industries in Zimbabwe accounted for more than 25 per cent and 10 per cent respectively of industrial output in 1985 and 1986 respectively.

29. The highest levels of consumer goods production subregionally was in Central Africa with more than 67.9 5/ per cent and in West Africa about 65.2 per cent. However West and Central subregions have tended to concentrate in wood product based industries-manufacturing furniture and producing paper and paper products. It should nonetheless be noted that these industries are substituting inclined to supply local needs. Therefore efforts to generate

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5/ See Survey of Economic and Social Conditions in Africa, 1985-1986, E/ECA/CM/13/Rev.1.N.Y., 1988, p. 43

exportable surpluses must be exerted and buttressed by appropriate support.

30. It is only relatively recent that the production of intermediate goods and equipment is beginning to take root with value-added concentrated in the manufacture of chemicals, coal based plastic products, non-metallic products except products of petroleum and basic metal industries, manufacture of fabricated metal products, machinery and equipment. The number of countries nurturing this nascent capital goods subsector with industries for export purposes is still very small. A majority of them lack sectoral inter-linkages and complementarities in the processing chain. Probably with the infusion of new technology coupled with increased investment, the subsector could become a major exporter of surplus manufactured products to other developing regions.

31. Other areas with a promise for processing into capital and intermediate goods consist of industrial chemicals, iron and steel, and metal products for export to other countries. These products already contribute on average about 6 per cent of manufacturing value added in North Africa and about 2 per cent in Africa south of Sahara. Some four countries (Algeria, Egypt, Tunisia and Zimbabwe) account for about 83 per cent of Africa's output of crude steel and together, accounted for 0.26 per cent of world steel production in 1986 from 0.23 per cent in 1980. 6/

32. Organic chemicals, mainly petrochemicals (fertilizers, pesticides plastics, synthetic fibres and rubber) are in great demand in other regions. Steady growth of fertilizer and chemical industries based on abundant natural resources in North Africa ought to form a basis for expansion of trade in manufactures.

6/ Ibid, p. 44

Chemical products account for about 13 per cent of Africa's export of manufactures. Somehow, Africa's existing fertilizer plants do not meet export demand due to low capacity utilization. Joint-venture would probably be the most appropriate means of enhancing this sector and where large economies of scale is a prerequisite in trade expansion.

33. Phosphate rock is the only fertilizer raw material the region produces in greater quantities. It ranks third in value terms after diamonds and copper. Phosphate rock production amounted to 34.2 million tonnes in 1986, up by 6 per cent on the 1985 level. North Africa with an output of 29.6 million tonnes in 1986, accounted for 86.6 per cent of the region's total production. West Africa produced about 4.5 million tonnes or accounted for 13.2 per cent. Eastern and Southern Africa produced about 120,000 tonnes per year, mostly for domestic consumption. Potash resources identified in a small number of countries are not yet fully exploited. Fertilizer prices, except for potash increased substantially after Iraq's invasion of Kuwait.7/ The crisis in the Gulf will considerably affect supply and prices of nitrogenous fertilizer and only to a lesser extent in case of phosphate fertilizer. Continuation of the embargo on Iraq could benefit minor producers of phosphate fertilizer in Africa through increased export prices.

34. Africa exports significant quantities of mineral of strategic importance to nuclear and aerospace industries (titanium, oil, platinum, uranium, chromate, nickel and cadmium) Sad to say, there has not been significant progress made by developing Africa in their efforts to secure a large share of exporting processed products with a high metal value-added. The fact that the

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7/ World Bank/International Finance Corporation, Quarterly Review of Commodity Markets, September 1990 p. 16

processing of metals is relatively energy intensive, and that rising energy prices would seriously aggravate the cost of production and ultimately increase the threat of substitutes against natural products that Africa intends to process as part of the diversification practise.

35. Exported mineral products represent about 30 per cent of non-oil exports and about 14 per cent of total exports. The abundance and variety of mineral resources in Africa and the fact that many of them are not fully exploited ought to be a good reason for embarking on processing these products for export. A recent study by the ECA Industry Division sheds considerable light of Africa's export potential in processed mineral products. For instance, it states that Africa's abundant mineral and natural sources of energy are grossly under utilized and exploited. It points to great potentials of exporting low cost energy to other regions in addition to petroleum and natural gas.

36. Enhancing processing capacity of many of Africa's minerals could render the countries less dependent on primary commodity trade. However, the large capital requirement to process these minerals for regional, interregional and international trade poses a serious obstacle to expanding and promoting trade in processed mineral products. Nonetheless, the Lagos Plan of Action endeavoured to put forward some strategies which ought to be followed in order to realize some this particular objective, with a view to lessening dependence on primary commodity trade. African countries should perhaps consider changeling resources from surplus to deficit countries among themselves, specifically geared to enhancing processing activities in order to create products for sell to each other. Other complementary strategies have been proposed in the Strategies for Revitalization Recovery and Growth of Africa's Trade in the 1990s and Beyond (E/ECA/TRADE/89/25/Rev.5).

(b) Limiting factors to Africa's processing and thus trade in manufactures

37. A number of factors militate against possibilities of processing in Africa. As indicated earlier efforts to process Africa's raw materials before export have been rather limited. Both poor performance and outright lack of participation in trade in processed products is attributable to economic and political factors. For instance, the lack of technical skills and support services for export activities make initiating and sustaining processing difficult. They also discourage foreign investors from participating in any joint ventures or by way of direct investment. Worse of all, the very levels of industrial development, poverty, smallness of some of the economies in which these resources are found prevent investment in infrastructure aimed at enhancing processing.

38. Structural rigidities on the supply side in Africa affect the production of manufactures and export thereof. Africa's exports of manufactures stagnated around 6 per cent of total exports during the 1970s and declined drastically in the 1980s.

40. While it is no longer useful to continue referring to the evils of colonial economic set up, some difficulties of insufficient exportable surplus in a majority of African countries are certainly rooted in colonial ties. However attempts to develop non-traditional patterns of trade have proved rather difficult in the post-colonial era. Nonetheless, the same can not be said for poor planning or the lack of deliberate efforts to create export capacities in processed products by African countries themselves. Experimentation with import substitution-led industrialization where it has been tried shows that it was never purposely geared towards surplus generation of export possibilities. Similarly,

very little attention was given to marketing in the aftermath of fully satisfied the intended domestic markets.

40. Hindrances to Africa's export trade in processed products include tariff and non tariff barriers. Exporting these products into the EEC for instance, runs up against tariff and non-tariff barriers since the latter relies very much on variable import levies, countervailing duties, quotas and voluntary export restraints (VERs) with a view to ensuring that imports remain uncompetitive with domestic products. 8/ In the United States on the other hand, import coverage of VERS has, grown from 8.9% in 1981 to 10.4% in 1988.9/ Thus Africa's two principal exports markets with the largest effective demand, are not readily accessible to developing African countries attempting to export processed products.

41. Restrictions imposed by the rules of origin applicable under preferential regimes of the EEC and other developed countries (Generalized System of Preferences) in the latter case) reduce benefits to exporters since they exclude many processed products of export interest to Africa. This is particularly important where production is just starting and imported inputs have to be used extensively before moving up to a stage where domestic-input content is expanded. Rules of origin have been subject to, often arbitrary administrative interpretation apart from being rather complex and difficult to understand by most African exporters.

42. An equally important issue likely to inhibit Africa's participation in trade in processed products is the general poor

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8/ See Tracy Murray, Voluntary Export Restrain and the Developing countries, UNCTAD/IT/ p. 27

9/ See Protectionism and Structural Adjustment, UNCTAD, TD/B/1240 p. 11

resource inflow. There is a correlation between Africa's export structure and export performance, particularly concerning processed products. The failure by the region's exports to earn sufficient foreign exchange needed for investing in order to generate additional production capacity has resulted in high dependence on foreign inflows for investment purposes. Thus, the combined effects of declining export earnings, contracting external capital inflows and increasing fund repatriation to meet debt servicing, seriously curtail Africa's prospects to take advantage and opportunities offered by diversifying out of primary commodity trade to trade in manufactures.

43. Fish resources are valuable assets for a number of coastal and Island states of Africa. It is however remarkable that very few countries seem to have processing industries with growing export proceeds from the fishing industry that can play a significant role in generating needed investment funds in the industry itself. Due to lack of investment and expertise among local agents and problems in attracting foreign investors, only a small proportion of fishing potential is exploited and processed for exports.

44. Viable diversification from current export commodity dependency into manufactures necessitates an improvement of market access conditions. There is a close linkage between processing for export and problems of market opportunities. A favourable external environment is indispensable if developing Africa is to succeed in lessening dependence on primary commodity trade. For instance, estimates indicate that developing countries' exports of manufactured goods to industrial countries face up to 50% more non-tariff barriers than exports from the industrial countries. Similarly quota limitations under Multi-Fibre Agreement (MFA). Currently however, not many African countries are affected by the MFA because of the low processing levels and lower quantities of exported textiles. However the knowledge that as soon as they

become significant large exporters, their growth will be curtailed acts as a disincentive to progress.

45. If efforts to process were to succeed by whatever mechanisms: be they joint ventures or private investments; the problems of marketing and distribution would still remain. This is even more so with regard to problems connected with tariff barriers which increase with the degree of processing. Over and above, their tendency to be discriminatory in application.

(c) Problems of trade creation and diversion

46. Most obstacles to trade creation and diversification from the African stand point are similar to those stated in the preceding chapter. Not least of these is the region's rigid commodity composition and lack of marketing systems which by their very nature are not easily adaptable to new changes. Other aspects are contributed by the inadequacy and insufficiency of physical infrastructure, the difficulty of choice of products to be processed, and lack of trade and marketing information, to mention but a few. There is no disagreement any more that improvement in Africa's world economic position, particularly international trade in manufactures depends on the ability of the countries being able to effectively deal with problems relating to acquiring vibrant technology to sustain processing of their commodities.

47. In many instances, national industrial and investment policies have been responsible for inappropriate and ineffective acquisition of wrong technology. This has led in most instances to products whose export market is either contracting or at costs relatively higher than those of competing suppliers.

48. However, there are a few instances where some African countries have made appreciable progress with their processing sector. Malawi's industrial sector is one such example whose main industrial sector at independence consisted of tobacco and tea processing but has expanded and diversified into a variety of import substituting and food processing activities. Malawi's exports on our last examination revealed that it included many non-traditional products and into many new markets. Similarly trade creation, according to World Bank reports has been observed for Senegal's export oriented industries based on groundnut processing, phosphate mining and fish processing. 10/ Most of the fish and groundnut cake are exported to Western countries' markets, while groundnuts and the bulk of its by-products are mostly consumed locally or exported to neighbouring countries.

49. Indications of the capacity to export certain manufactures is provided by the ability of countries that have developed sustainable export trade mechanisms. However, some other exports (cotton fabrics and yarn, footwear, manufactured wood, inorganic chemicals, cement) to mention but a few have began to develop beyond the EEC and into markets where no preferences are enjoyed. This in itself is not a solid foundation for any conclusion, except that it indicates that some countries have achieved competitiveness in this range of products. The solution to problems of trade creation and diversion is likely to come about through upgrading and strengthening respective industries engaged in import substitution, especially if they can also be enabled to generate sufficient exportable supply and surpluses.

50. There is a generation of African businesses successfully processing available raw materials for export. Their products,

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10/ World Bank, Senegal Country Economic Memorandum, 5 Nov. 1984.

though quantity-wise very small, have proved to be capable of competing favourably in the international markets. For instance, the Tanzanian automobile radiator production, using Indian technology has become so efficient that it exports about 10 per cent of its outputs to neighbouring countries as well as to India, the Middle East and United Kingdom. Similarly, Botswana has sold fashion design garments in the New York markets, with Madagascar competiting in the international markets for high quality children's clothing and embroidered tablecloths. These illustrative examples go to show the adaptability of local entrepreneurs to specialize and compete in the international markets.

51. The overall approach will certainly call for a rationalized rehabilitation of industrial production as well as improved capacities. African countries will have to optimize their trade potential to new markets by exploiting to the fullest, their potential as manufacturers and exporters of processed and semi-processed products. In this respect, greater use will have to be made of existing arrangements or within new perspectives. It is imperative at least in the short-run to improve production patterns geared to penetrating non-traditional markets, particularly in the context of both intra-African trade and those of other developing countries.

(d) Mechanisms and options for enhancing processing for exports in Africa

52. There are a number of lessons that African countries could draw from the way certain regions of the world have been able to spearhead and sustain growth deriving from processing and exporting semi-manufactured products. However cases of most newly industrializing countries, the strategy was undertaking those

developments in association with certain transnational corporations. The approach was quite effective in gaining access to wider markets. For instance, over 70 per cent of the manufactured products were imported by principals (buy-back arrangements) of those joint ventures, making it possible for those products to find their way into markets where they would have otherwise faced stiff competition. Some used this approach to retain domestic consumption even though there were instances of subsidizing export-led growths.

53. The success of the strategy was initially based on a limited basket of manufactures, principally clothing, textiles, footwear, chemicals and leather. African countries wishing to enhance their processing capacity intended for export markets either to the other developing and/or to developed regions may wish to consider this approach especially since it allows possibilities of acquisition of technology and skills.

(i) Foreign investment and entrepreneurship

54. The continuing scarcity of funds to invest in processing industries limits processing prospects in Africa. It also compels a large number of existing plants to operate below capacity. One alternative out of this difficulty is for African countries to rationalize these industries and shift greater responsibility to the private sector. Conditions should also be created to enable manufactured exports to respond strongly to improved incentives leading to overall improved growth.

55. External investment and entrepreneurship can be useful instruments in expanding Africa's trade to meet both local and export needs. Apart from creating export opportunities, the action would also contribute towards achieving import substitution objectives. Governments should therefore formulate clear policy

guidelines with respect to sectors and activities open to foreign investment and entrepreneurship with a view to strengthening trade in manufactures. Furthermore and in order to maximize net benefits from foreign investment and entrepreneurship, countries would have to create enabling conditions in order to make it easier to establish at national levels, committees charged with liaising between the planning authorities and bodies which represent foreign investors and entrepreneurs. Such committee would be required in addition, to establish real contacts and deal with problems faced by foreign investors and entrepreneurs.

(ii) Joint-ventures

56. The concept of joint-ventures is by no means new to Africa. Benefits which African countries would derive from such joint ventures will much depend on a variety of factors. Equally important is creating an enabling environment that makes possible both forward and backward linkages to the rest of the respective economies. Consequently, they should aim to encourage the process and shift the African exports structures away where this is economically feasible, from labour-intensive manufactures that face severe protectionist barriers. Implied in this is a shift towards technologically more sophisticated goods. From the stand point of investment strategy, there will be need for deliberate policy to give preference to sectors and products with a greater and better manufacturing potential.

57. Several European textile firms that currently export large quantities of dyed cloth incorporating African designs and motives have gained access and have a strong hold in Africa through their conglomerates in partnership with certain developing countries. The expansion of textile export capacity in Cote d'Ivoire is an example of TNC participation in a joint venture arrangement.

Others include the Zambia-German joint-venture that has emerged as a reasonable and dynamic factor in Zambia's efforts as an exporter of uniforms not only to Germany but also to other markets. Prospects are even much greater in this regard in countries like Mauritius, Nigeria, Zimbabwe, Egypt, Algeria, Morocco and Kenya whose economies offer generous inducements to foreign investments in an existing enabling political environment that favours export promotion of manufactures.

58. Mechanisms can be created where some of these TNCs can be coopted with a view to increasing trade co-operation arrangements. Some subsidiaries of TNCs like Sweden's Saab-Scania in Brazil export trucks to Angola and Mozambique, and Volkswagen do Brazil on the other hand, exports its products to a number of African countries. Perhaps they could be persuaded through mutual agreements, to redeploy their plants to richly resource endowed African countries. Similarly, extending such existing arrangements like the Gabon-Argentina trade agreement to include setting up in Gabon processing plants for Gabonese iron ore. The objective would not only be to capture African markets but also to assist Africa process its raw materials locally for export.

59. Many of the existing economic co-operation measures ought to constitute an important framework for supporting trade expansion based on processed raw materials. Such co-operation arrangements are capable of mitigating some of the obstacles encountered in trade expansion including providing possibilities for better access to regional markets through negotiated preferential treatment for semi-processed products originating from within.

(iii) Private sector

60. Entrepreneurship in Africa has a long history even though it may not be that sophisticated to match the complexities of world

trade. 11/ However, government controls and intervention in production and trade at times stands in its way. The question is not that governments should not intervene but that if intervention takes place, it should be positive. African farmers, traders, artisans as well as managers of large-scale enterprises are seedbeds for nurturing indigenous entrepreneurship. Governments in Africa should endeavour to create an enabling economic environment so that these groups could be assisted to take advantage of market opportunities both within and outside Africa. Indigenous business houses would establish processing enterprises in place of the old dualist image of separate development between the informal and formal modern sectors. Needless to say, this will to a large extent depend on support rendered to them in terms of acquiring new productive techniques, access to financial resources and the training of skilled labour needed to expand industrial output beyond domestic markets.

61. Trade in processed products represents the weakest link in the network of Africa's trade. It nonetheless offers a vast potential for rapid growth among developing countries. It is to the advantage of developing countries that they work to exploit this latent potential. It is, therefore incumbent on the developing countries themselves to renew their commitment to trade with each other in processed products. They should themselves provide a new dynamism and policy dialogue for such trade with a view to making it materialize meaningfully.

(iv) Technical co-operation arrangements

62. By reinforcing technical cooperation among developing countries (TCDC) trade in processed products could form an integral

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11/ See Jonathan H. Chileshe, Nothing Wrong with Africa, Except..., Vikas Publishing House Pvt.Ltd., India, 1988, p. 82.

part of economic cooperation among developing countries (ECDC) within a broader context of the Global System of Trade Preferences among Developing Countries (GSTP). A mechanism that can not be viewed only as a means for the exchange of preferences, but as a broad umbrella under which developing countries co-operate to their mutual advantage. Account should be taken of their respective capacities and market offers in expanding both production and trade in manufactures.

63. However, to substantially increase interregional trade requires arrangements capable of facilitating payments and easing foreign exchange constraints. Consequently, existing clearing and payment arrangements will have to be strengthened and those with other developing countries may need to be created.

64. Another important consideration towards increasing African exports of processed products lies in building up necessary supply capabilities. It requires the blending of such factors as entrepreneurship, technology, skills and market outlets to which reference is already made. Mauritius has been able to successfully interplay these factors and as a result it has largely reduced its high dependence on sugar exports by increasing the export of textiles by attracting large foreign investment and entering into joint ventures.

VI. SUMMARY OF CONCLUSIONS

65. The foregoing analysis of Africa's trade problems and prospects amply confirm the need for effectively diversifying from current primary commodity dependency into trade in manufactures.

66. The strength and prospects for increasing export earnings through processing commodities before exporting can best be achieved as stated earlier, through structural adjustment of the

African economies. Policy measures and options that are open to developing African countries to make processing a reality suggest emphatically the importance of restructuring the production base. It is in this respect that measures for enhancing trade in manufactures should be buttressed by improved resource flows, technological innovations, sound investment policies and better marketing and trade promotion strategies.

67. Observed trends in the North-South trade provided Africa with both opportunities and a challenges. Africa's overall trade performance in manufactured and processed goods is very low. Industries lack sectoral linkages and complementarities in the processing chain. There is also apart from the extensive underutilization of installed capacities of industries, high dependence on import substitution industries at the early stages concentrating on simple processing, fabricating and assembling ready-made imported components. What Africa needs most is to device strategies and mechanisms that can enhance processing of its raw materials for exports.

68. The reality of the African situation is that processing has been limited to the production of consumer goods to meet demands formerly satisfied by imported goods. The preceding analysis shows conclusively that unless there is a definite change in policy measures in Africa and other countries to fortify the development of processing in Africa, geared towards providing surplus products for export, Africa on its own as region or its individual countries will be incapable of gaining a significant world trade share in processed products.

69. The onus therefore rests on the African countries to take the initiative to break the vicious circle in trade and stop being overwhelmingly dependent on exporting primary commodities. New

strategies that have been put forward linking technological innovations with marketing and investment must be implemented. Africa's future depends among other things, on Africa's ability to exploit new opportunities and taking advantage of its huge natural resources to engender a new framework for international trade.